BAYTEX energy ltd.

annual report 2000

CORPORATE PROFILE

Baytex is an independent oil and gas company engaged in the exploration, development and production of oil and natural gas. We operate substantially all of our production in three core project areas in the provinces of Alberta and Saskatchewan. Baytex focuses on building an asset base through seismic data, land acquisitions, exploratory and development drilling, as well as property and corporate acquisitions. Our efforts are concentrated on properties that we believe will provide long-life reserves which will generate cash flow in the near term. We continually look for opportunities to enhance our position in core areas, and we intend to pursue strategic acquisitions which are within our operating and financial parameters.

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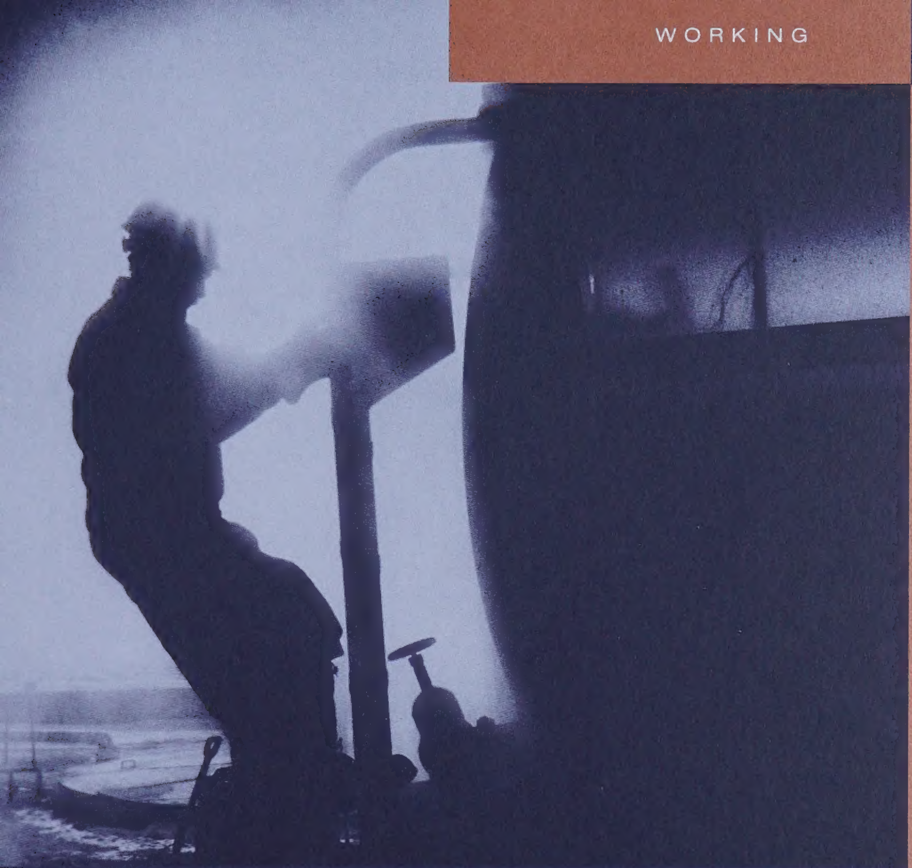
Notice of Annual and Special Meeting

The annual meeting of shareholders of Baytex Energy Ltd. will be held in the Alberta Room of the Fairmont Palliser Hotel at 133 – 9th Avenue S.W., Calgary, Alberta on Thursday, May 31, 2001 at 3:00 P.M. (MDT). All shareholders and other interested parties are invited to attend.



In fiscal 2000 we conducted a $171 million exploration and development program, the largest in the Company's history, involving drilling 322 wells of which 93 percent were successful. We acquired Bellator Exploration Inc. in May for $204 million and Aquilo Energy Inc. in August for $17 million. These acquisitions bolstered our position in Western Saskatchewan and transformed Baytex into the largest oil producer among intermediate Canadian exploration and production companies.

THESE STRENGTHS PROVIDE SIGNIFICANT COMPETITIVE ADVANTAGES FOR BAYTEX.

Significant Undeveloped Acreage

Baytex maintains a high ratio of undeveloped acreage to production, which enables the Company to add value through exploratory drilling. This large inventory of undeveloped acreage makes the Company less sensitive to increases in prices for land and asset acquisitions.

Low Cost Structure

Baytex has one of the lowest cost structures in the industry, which has contributed to favorable returns on investment and to maintaining operations through periods of price volatility.

Focus on Heavy Oil

The Company has experienced strong growth over the last three years in heavy oil production with daily production increasing from 3,517 barrels in 1998 to 5,574 in 1999 and to 20,005 in 2000. Current production of heavy oil is approximately 26,000 barrels per day. These increases have enhanced economies of scale in our core areas and have led to lower operating costs per unit.

Experienced and Motivated Personnel

Baytex has highly experienced and technically proficient employees. The senior management team has an average of 17 years of experience in the Canadian oil and gas industry. The Company believes that employee ownership attracts, retains and motivates quality personnel and, for this reason, all Baytex employees participate in our stock option plan.

TO ADD VALUE

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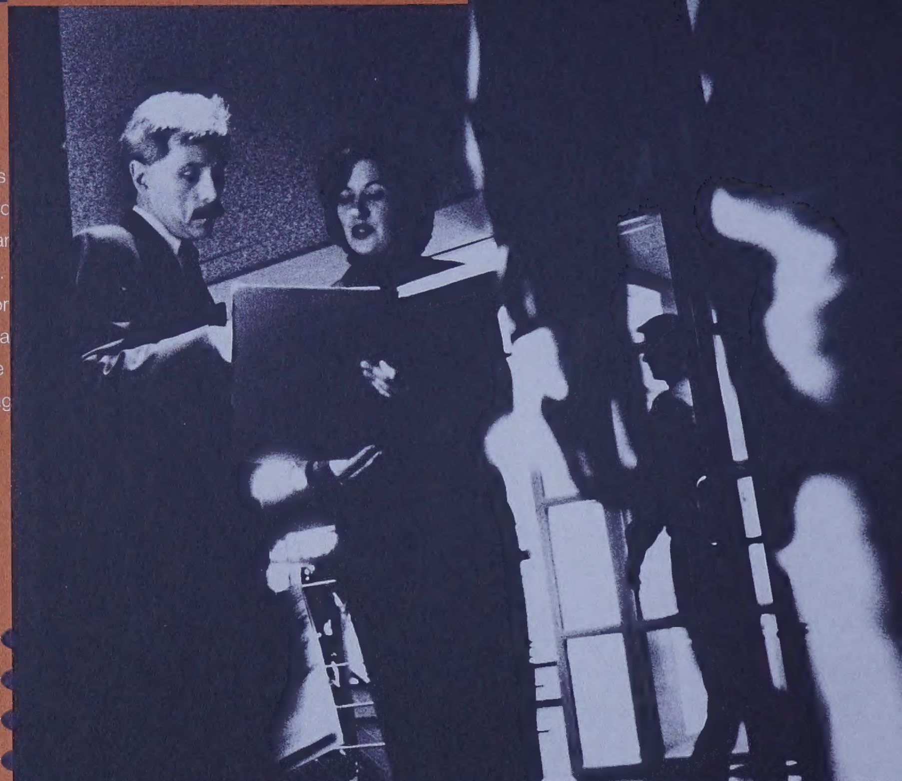

Baytex's growth over the last two years has been driven by heavy oil. Now the Company is pursuing several natural gas exploration opportunities that, if successful, will lead to significant gas growth. These higher risk exploration programs are balanced by a program of lower risk development drilling as well as strategic acquisitions.

THESE STRENGTHS PROVIDE SIGNIFICANT COMPETITIVE ADVANTAGES FOR BAYTEX.

Successful Drilling Program

In fiscal 2000, Baytex participated in 312.6 net wells, resulting in 263.9 net oil wells, 24.3 net gas wells, 20.4 net dry holes and 4.0 net service wells, for an overall success rate of 93 percent. This high success rate was due to a focus on heavy oil drilling. Heavy oil reserves are generally large in size with low associated geological risk. Of this total, the Company participated in 270 heavy oil wells, with a 96 percent success rate.

Accretive Acquisitions

Baytex has demonstrated its ability to acquire assets with significant development opportunities at favorable prices, including the merger with Dorset Exploration Ltd. in 1997 and the acquisitions of Bellator Exploration Inc. and Aquilo Energy Inc. in 2000. The Company has applied its technical expertise and financial strength to take advantage of the exploitation and exploration opportunities of these acquisitions.

Strong Regional Focus

Properties are concentrated in Northwest Alberta, West Central Alberta and Western Saskatchewan where Baytex has accumulated substantial geological and reservoir data and operating experience. As a result, the Company is better able to identify, evaluate and negotiate acquisitions, and develop and operate properties in an efficient and low-cost manner.

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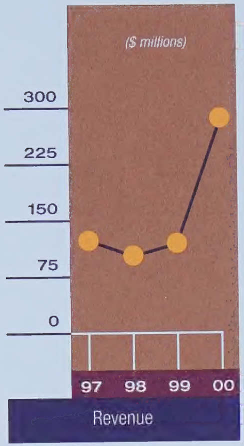
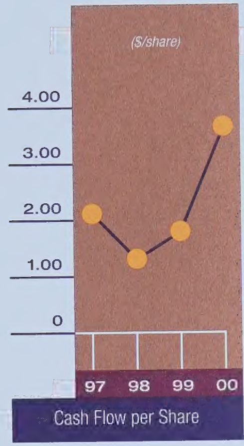
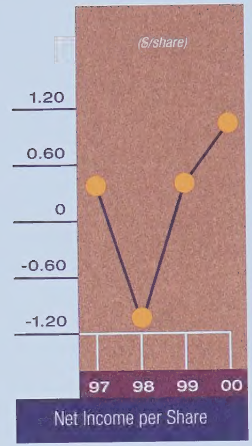
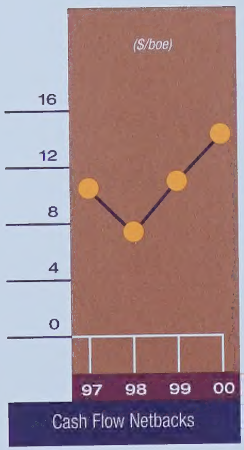
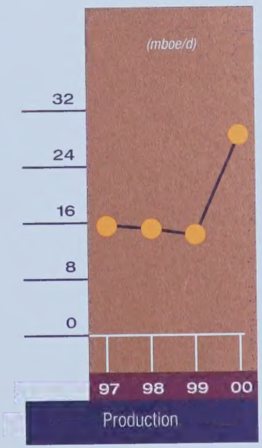
	2000	1999
FINANCIAL		
($ thousands, except per share amounts)		
Petroleum and natural gas sales	**286,226**	120,087
Cash flow from operations	**155,326**	62,703
Per share – basic	**3.68**	1.77
– fully diluted	**3.50**	1.67
Net income	**43,788**	14,128
Per share – basic	**1.04**	0.40
– fully diluted	**1.00**	0.39
Exploration and development	**170,787**	81,655
Acquisition – net	**214,070**	(7,342)
Total capital expenditures	**384,857**	74,313
Working capital deficiency	**42,374**	20,247
Long-term debt	**213,883**	116,382
Total net debt	**256,257**	136,629
Shares outstanding at December 31 (thousands)		
Basic	**45,797**	35,469
Fully diluted	**49,839**	38,615
OPERATING		
Production		
Conventional oil & NGLs (bbls/d)	**4,107**	4,457
Heavy oil (bbls/d)	**20,005**	5,574
Total oil & NGLs (bbls/d)	**24,112**	10,031
Natural gas (mmcf/d)	**57.7**	56.1
Barrels of oil equivalent (boe/d)	**29,882**	15,641
Reserves, proved & probable		
Oil & NGLs (mbbls)	**153,060**	93,475
Natural gas (mmcf)	**128,250**	151,551
Barrels of oil equivalent (thousands)	**165,945**	108,630
Undeveloped land holdings (thousands)		
Gross acres	**1,087**	1,062
Net acres	**942**	913

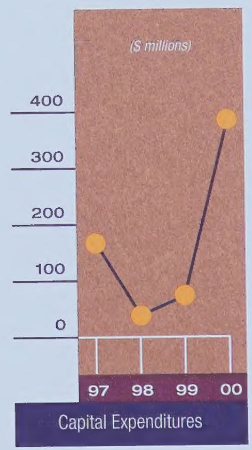

($ millions)
300
225
150
75
0
97
98
99
00
Revenue


($/share)
4.00
3.00
2.00
1.00
0
97
98
99
00
Cash Flow per Share


($/share)
1.20
0.60
0
-0.60
-1.20
97
98
99
00
Net Income per Share


($/boe)
16
12
8
4
0
97
98
99
00
Cash Flow Netbacks


(mboe/d)
32
24
16
8
0
97
98
99
00
Production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400
300
200
100
0
97
98
99
00
Capital Expenditures

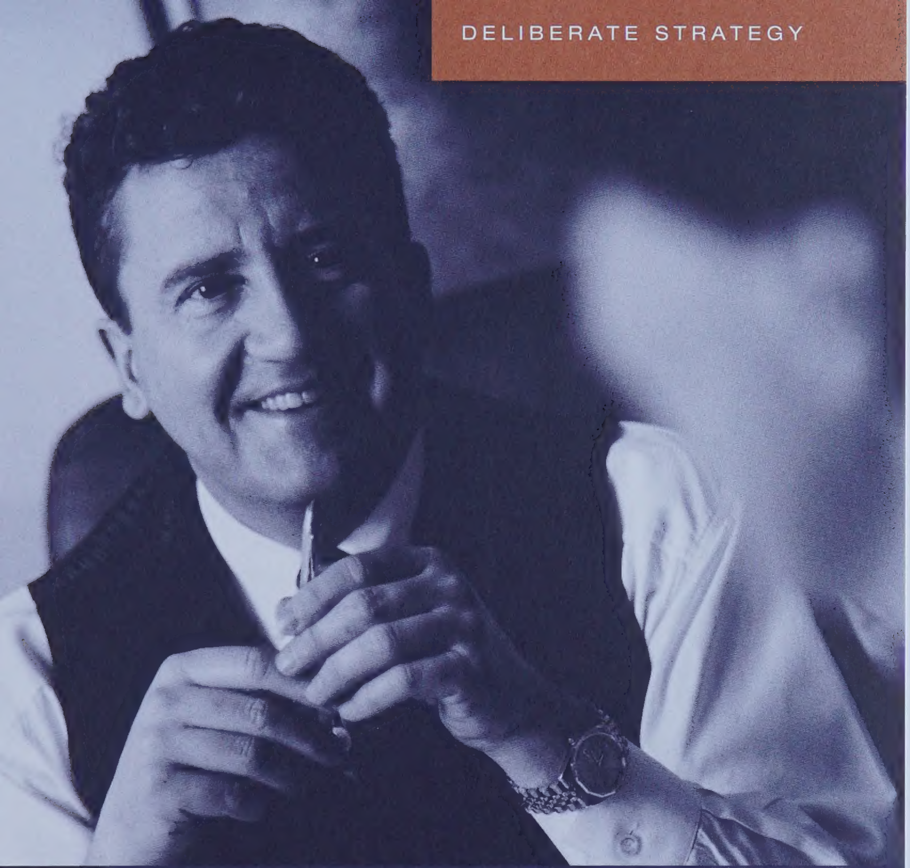
After managing conservatively through the oil price recovery in 1998 and 1999, Baytex had a very active year in 2000 achieving record production growth and financial results.

The work we did in 1998 and 1999 led to the best year ever for Baytex in terms of production, cash flow and earnings. Average production for 2000 was 29,882 boe/d, representing an increase of 91 percent over our 1999 production. More importantly, production per share increased 60 percent during the year, indicating the true value created by our capital program. Our production growth was attributed to both drill bit and acquisition success. Average production for 2000, excluding those acquired in the Bellator and Aquilo transactions, increased 30 percent to 20,272 boe/d from 15,641 boe/d in 1999. In addition, production from the Bellator properties reached 16,635 boe/d in December 2000 compared to 10,000 boe/d when the acquisition was completed, validating the upside potential identified by Baytex during its evaluation of Bellator.

Cash flow for 2000 reached $155.3 million, a 148 percent increase over the $62.7 million in 1999. On a per share basis, it was $3.68 basic and $3.50 fully diluted for 2000, both numbers are more than double that of 1999. Net income for 2000 was $43.8 million, more than triple that of 1999. However, both cash flow and earnings would have been even stronger had heavy oil differentials not widened so dramatically in the fourth quarter. Our heavy oil wellhead price for the fourth quarter of 2000 was $17.33 per barrel, which represented 36 percent of the Edmonton par price compared with 73 percent during the first nine months in 2000, and 68 percent during the fourth quarter of 1999. We certainly believe that the pricing in this fourth quarter was an aberration and not representative of the long-term economics of our heavy oil assets. We have already seen an improvement in the differentials so far in 2001. With demand for heavy oil expected to increase through the spring and summer months and the production cuts recently implemented by OPEC taking the form of a heavier grade of crude, we are hopeful that differentials will continue to improve to more historical levels.

On the cost side, our operating costs averaged $4.92 per boe in 2000, a 9 percent increase over 1999. Our field staff has done a great job operationally, managing the inflationary pressure from record demand for oilfield services, rising fuel costs and power deregulation in Alberta. We will continue to be vigilant in our efforts to minimize field operating costs. General and administrative expenses dropped to $0.40 per boe in 2000 from $0.56 one year ago. The synergetic acquisitions we made in 2000, as well as our highly focused operations, are contributing factors to this improvement. Interest expense decreased 15 percent to $1.26 per boe, evidencing a strong balance sheet. Current taxes increased to $0.78 per boe in 2000 due to the revenue-based Saskatchewan Capital Tax. We did not pay any income taxes and should remain in this position for at least two more years.

Several measurements demonstrate our capital spending efficiency. "All-in" finding and development costs were $6.08 per established boe for 2000 and $5.56 for the four-year period from 1997 to 2000. Our recycle ratio was 2.3 for 2000 and 2.0 for the four-year period. A large and successful capital program resulted in a reserve replacement ratio of 5.8 times for 2000 and a 4.3 ratio for the four-year period. We feel that our four-year average numbers are particularly meaningful as 1997 was the first year of our foray into heavy oil through the merger with Dorset Exploration Ltd. The indicated capital efficiency supports our strategy to focus on heavy oil and natural gas in order to grow our Company on a profitable and sustainable basis.



Baytex has successfully staged a turnaround over the past three years, transforming a $38 million loss into a $44 million profit in that timeframe. This has been accomplished through a combination of tough decision-making around judicious capital allocation, strategic timely acquisitions, disciplined cost control and maintaining financial strength. We strive to protect the value of our assets and deliver the best possible return to our stakeholders.

The oil and gas industry is undergoing tremendous changes, from both the structural and economic standpoint. Merger and acquisition activities have been continuing at a record pace since 1999, resulting in the near disappearance of independent intermediate sized producers. Baytex is now the larger of only two independent companies producing between 20,000 to 55,000 boe/d. On the economic front, OPEC has successfully demonstrated its determination and coordination in maintaining oil prices above US$25.00 per barrel, while supply and demand fundamentals have driven gas prices to unprecedented levels. Record cash flow in our industry will fuel rampant and unabated consolidation and exploration activities. With a large property inventory, great financial strength and a proven team of employees, Baytex is in a position to compete effectively in this environment and pursue our growth into a senior producer.

On behalf of our Board of Directors, we would like to thank our shareholders for their continued support and our employees for their dedication over the past year. We are confident that 2001 will be another record setting year for our Company.

On behalf of the Board of Directors

Dale O. Shwed
President and Chief Executive Officer
March 15, 2001

IN ACTION

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Our capital program increased from $74 million in 1999 to $385 million in 2000. The 2000 program pushed production per share up 60 percent to 708 boe/d per million shares and increased reserves per share by 24 percent to 3.1 boe of established reserves. This efficient growth did not come at the expense of significantly increasing our debt leverage. Our successful financing in early 2001 will provide capacity to continue building assets and value for our shareholders.

Notwithstanding the drilling of 270 heavy oil wells in 2000, we have been successful in building and maintaining a minimum two-year inventory of drilling locations to ensure continued growth in our heavy oil production. Our vast undeveloped land base provides us with good potential to add natural gas reserves and production through the drill bit. Our 2001 winter capital program is predominantly focused on natural gas related activities and will result in our gas production increasing to approximately 65 mmcf/d by the end of March. Further gas drilling will be done this year in West Central Alberta and Western Saskatchewan, which offer year-round access, as well as selective high impact natural gas exploration. Baytex will aggressively pursue natural gas and light oil acquisition opportunities in an effort to lighten our production mix.

On February 12, 2001, we completed an offering of US$150 million senior subordinated notes. These notes bear interest at 10.5 percent and are repayable in February 2011. We applied part of the net proceeds against all of our outstanding bank debt, with the balance added to working capital. As a result of this financing, we currently have undrawn bank facilities totaling $110 million, together with cash on deposit varying between $70 million and $90 million. We are pleased with our new debt structure, as it provides the Company with improved long-term stability and reduced liquidity risk. It also reduces our foreign exchange exposure by matching US$ based revenue with US$ denominated debt. Furthermore, we now have the financial capacity to pursue growth opportunities in the current environment.

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Dale O. Shwed
President and Chief Executive Officer
March 15, 2001

Expand Heavy Oil Inventory

Baytex concentrates on heavy oil development through conventional production techniques, which allows the Company to identify and develop reserves and conduct production operations in a low cost manner. Baytex has a large inventory of heavy oil exploration and development prospects and will continue to expand its inventory in order to provide opportunities for dependable production growth.

Maintain Financial Strength

Baytex is committed to maintaining financial flexibility, which will allow the pursuit of exploration and development activities and allow the Company to take advantage of other opportunities that may arise. The Company will continue to emphasize a low cost structure to maximize cash flow. Baytex intends to continue to keep exploration and development capital expenditures within cash flow and maintain a conservative capital structure.

Management promotes new ideas and empowers people to be creative. The culture at Baytex is to recognize the work of staff and the accomplishments of team effort. Not surprisingly, the Company's competitive advantage is the people who work as a team to achieve the goal of profitable growth. This goal is pursued throughout the Company and is our source of pride.

Baytex operates primarily in three core areas in Alberta and Saskatchewan. We continually look for opportunities to enhance our position in our core areas.

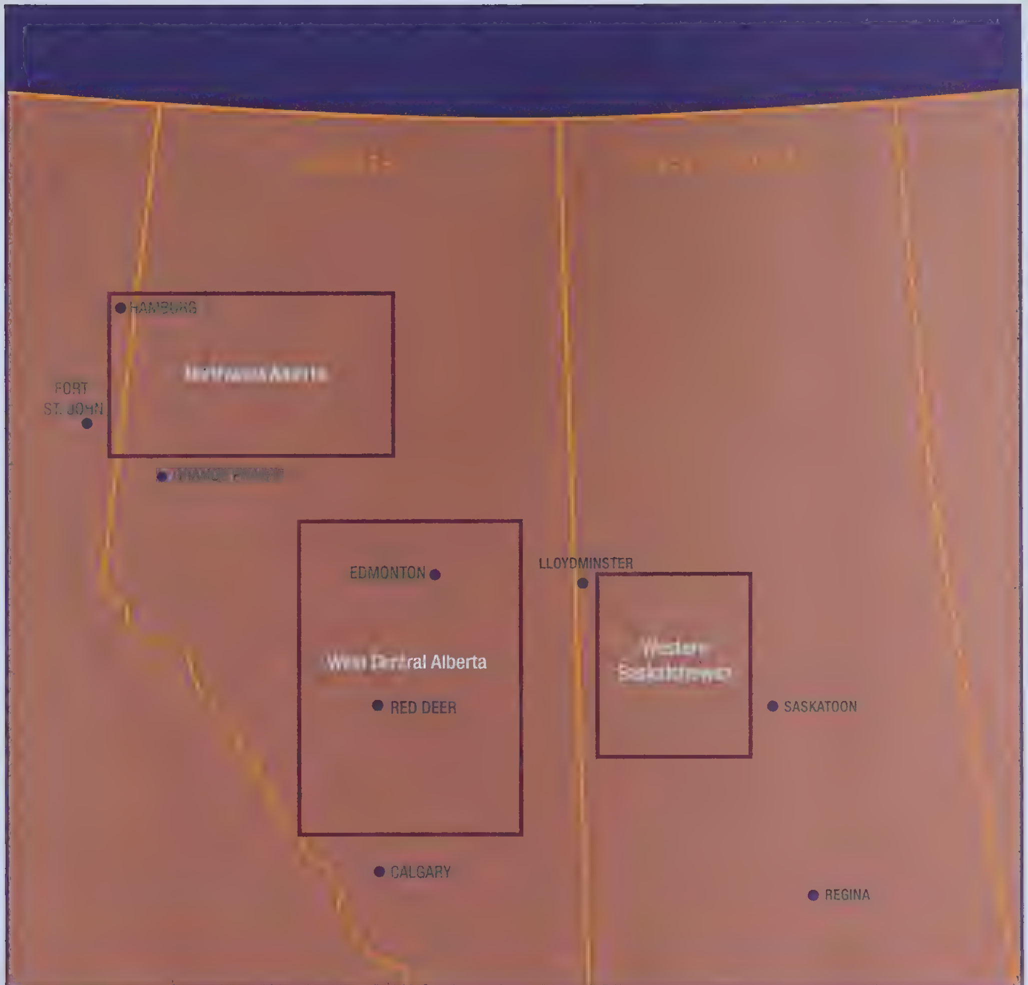
ase Natural Gas Exposu

Baytex intends to diversify its production mix by expanding natural gas operations. Approximately 85 percent of the Company's undeveloped acreage is located in natural gas producing areas. A significant portion of the 2001 capital program is allocated to natural gas prospects, including the drilling of several exploratory wells which could add significantly to natural gas reserves and production.

Baytex will continue to pursue acquisitions of properties and companies that meet its evaluation criteria, which include:

- strategic location in one of the Company's core project areas or that establishes a new core project area;
- potential for increasing reserves and production through exploration and development;
- acceptable return on investment; and
- opportunities for improving operating efficiencies.

Baytex's skilled technical team takes advantage of technological advances in heavy oil operations to greatly improve our economics. The application of high density perforation and progressive cavity pump technology have resulted in lower operating costs and higher productivity and ultimate reserve recovery.



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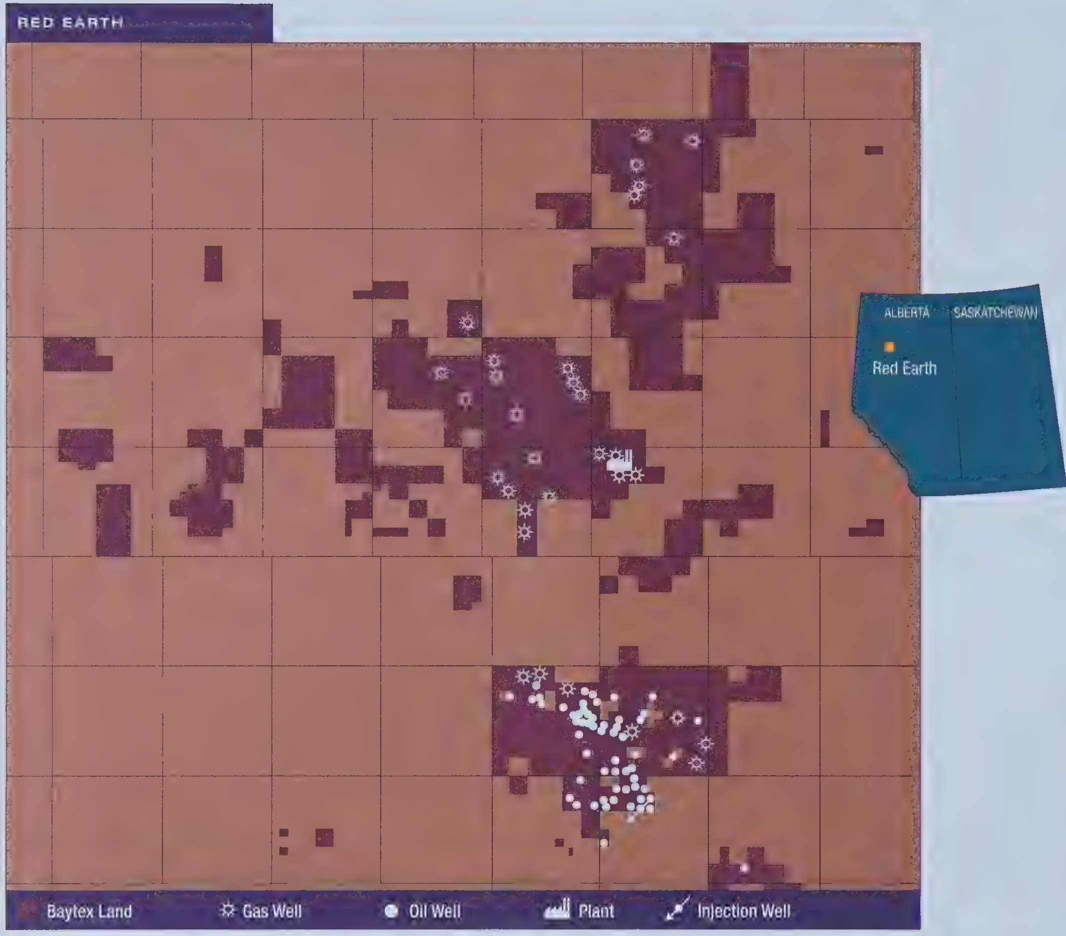
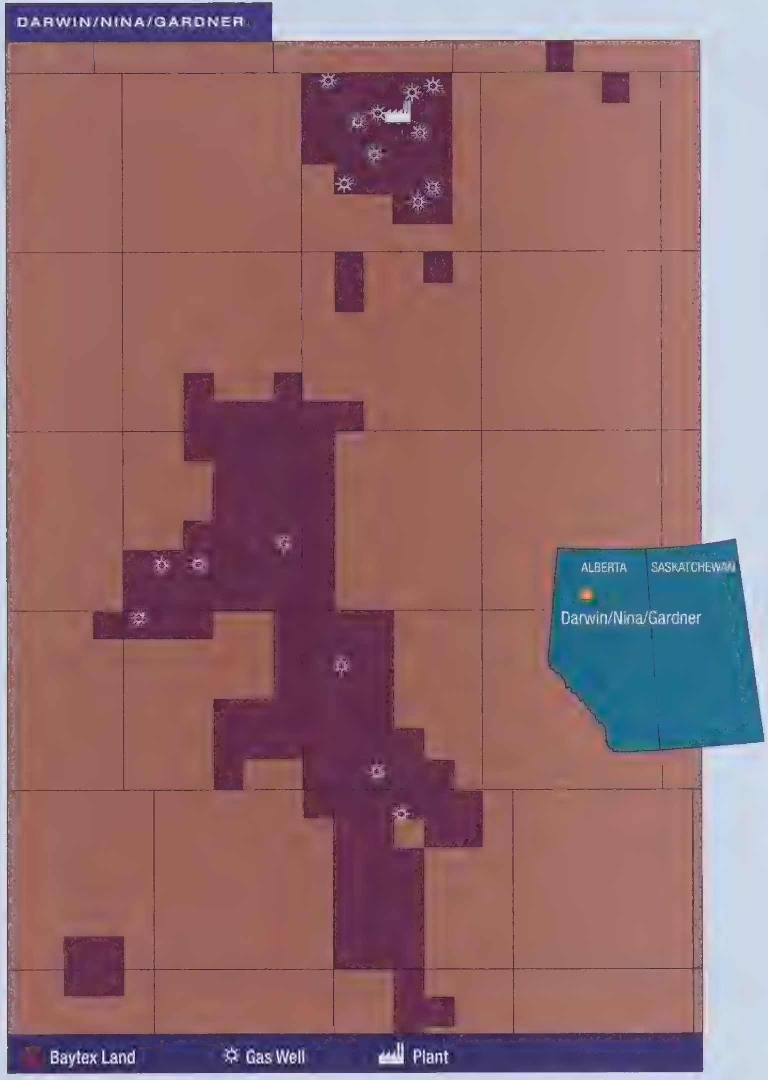


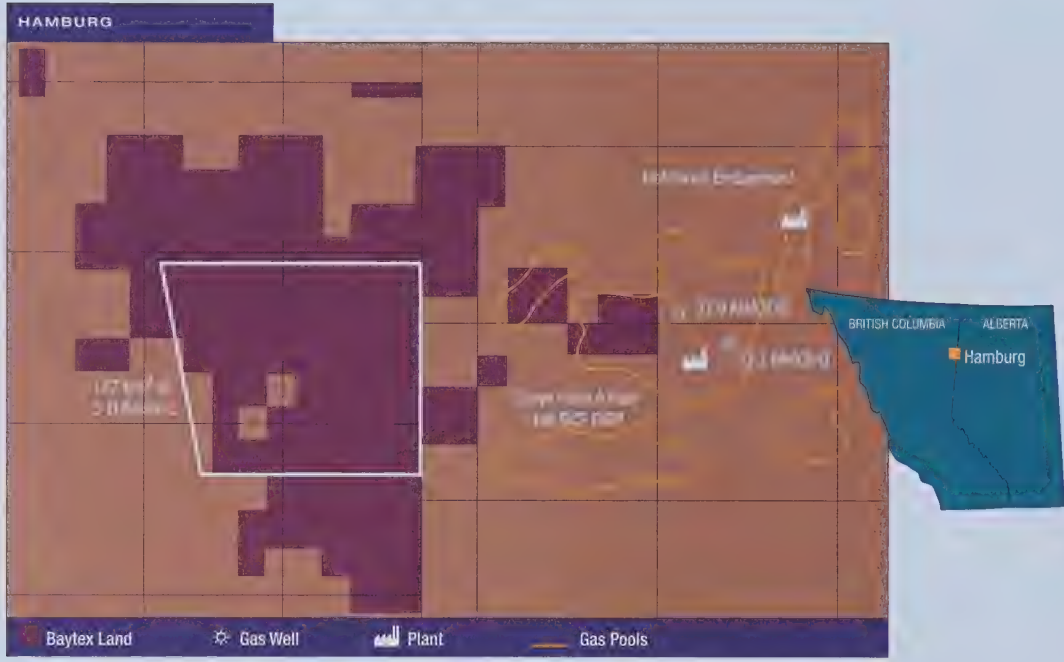
Red Earth/Goodfish/Lafond

We initiated operations in this area through a merger with Dorset Exploration Ltd. in 1997. Production in this area includes light oil from the Slave Point and Granite Wash formations and natural gas from the Bluesky formation. In 2000, we drilled 9.3 net wells in this area, resulting in 4.0 net oil wells, 3.3 net natural gas wells and 2.0 net water injection wells. Baytex holds approximately 200,000 net acres of undeveloped acreage in this area. The planned 2001 capital program includes the development drilling of five wells and expenditures for waterflood facilities. Our daily average production in 2000 was 1,066 barrels of light oil and 15.5 million cubic feet of natural gas.



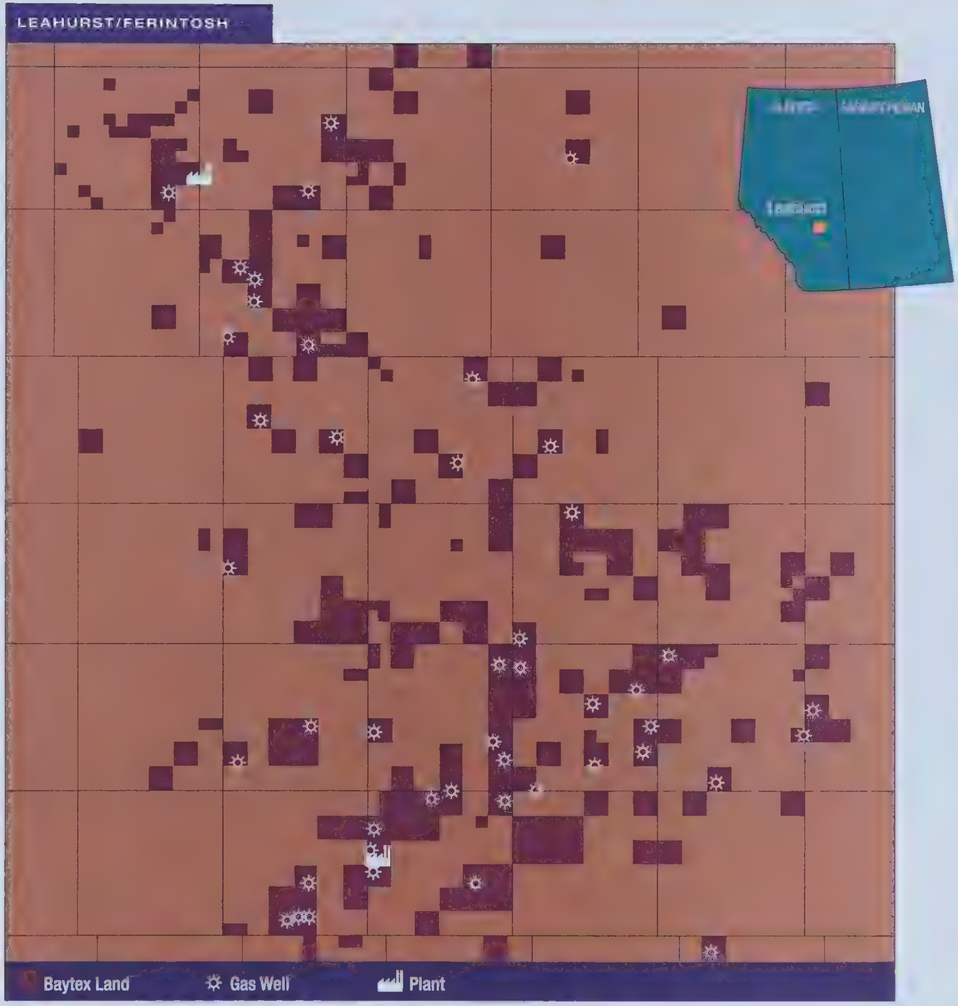
Darwin/Nina/Gardner

Baytex began operations in this area with the development of Darwin in 1998. Production is natural gas from the Bluesky formation. In 2000, we drilled 5.0 net wells at Nina/Gardner, resulting in 2.0 net natural gas wells and 3.0 net dry holes. We hold approximately 68,000 net acres of undeveloped acreage in this area. Development plans for the first half of 2001 include drilling seven wells at Nina/Gardner, and constructing production facilities to tie-in successful wells drilled in prior years. Our average production was 4.6 million cubic feet per day of natural gas for 2000, all from the Darwin property. Production from Nina/Gardner commenced in March 2001.



Hamburg

In the Hamburg area, we hold 4,500 net acres of undeveloped land in Northwest Alberta, and 40,000 net acres of undeveloped acreage in Northeast British Columbia. This area represents the highest potential exploration project in our drilling program for the first quarter of 2001. We are targeting natural gas in the Slave Point formation where limestone reservoirs can produce up to 15 million cubic feet per day per well, and dolomite reservoirs can produce up to 60 million cubic feet per day per well. Reserve targets are also substantial and can be up to 450 billion cubic feet per pool. We conducted extensive three-dimensional seismic programs in the first quarter of 2000 and identified several exploratory targets. Three wells were drilled in the first quarter of 2001, with working interests ranging from 50 to 80 percent. Successful wells may be brought on production by 2002.



Leahurst/Ferintosh

Baytex began operations in this area in 1993. Production is primarily natural gas from the lower Mannville formations. We hold 41,000 net acres of undeveloped land, interests in two gas plants and a 109-kilometre gathering system in this area. In 2000, we drilled 2.1 net wells, all successful natural gas wells. This area has year-round access, which allows us to conduct continuous development and exploration activities. Our average production for 2000 was 10.0 million cubic feet per day of natural gas and 93 barrels per day of associated liquids.

CARRUTHERS PAD DEVELOPMENT

Carruthers

Carruthers was Dorset's principal heavy oil property. The property consists of two separate pools in the Cummings formation. Dorset had exploited the north pool in the early 1990s using horizontal wells.

We improved on this, developing the south pool in 1997 with vertical and slant wells. Extensive development drilling of the south pool began in the second quarter of 1999. In 2000, we drilled 74.1 net wells which resulted in 73.1 net oil wells and 1.0 net dry hole. Up to 100 wells remain to be drilled in this area. Our average production was 5,955 barrels per day of heavy oil and 0.8 million cubic feet per day of natural gas for 2000.

Lashburn

Baytex acquired Lashburn through the acquisition of Bellator in May 2000 Production is heavy oil from the Sparky formation. Since acquiring this property, we have drilled 32.0 net wells, resulting in 31.0 net oil wells and 1.0 net water injection well. Our capital program in 2001 will include further development drilling in this area. Since the acquisition, production averaged 2,953 barrels per day in 2000

Tangleflags

Tangleflags was Bellator's largest property, accounting for approximately 60 percent of its total production at the time of our acquisition. Tangleflags is characterized by multiple-zone heavy oil reservoirs with production from the Colony, McLaren, Waseca, Sparky, General Petroleum and Lloydminster formations. As government regulations generally permit production from a single formation at any given time, this property possesses long-term development potential with a considerable number of up-hole recompletion opportunities. Following the acquisition of the property, we drilled 58.0 net wells, all successful oil wells. Continuous development drilling and recompletions will be conducted in our 2001 capital program. Our average production was 6,425 barrels per day of heavy oil and 3.4 million cubic feet per day of natural gas from the acquisition in May to December 31, 2000.

Acreage

The following table provides information about the undeveloped acreage owned by Baytex as of December 31, 2000. Undeveloped acreage means acreage on which we do not have a productive well and includes exploratory acreage.

Undeveloped Land Summary

	2000			1999		
(acres)	Gross	Net	Average Interest	Gross	Net	Average Interest
Northern Alberta	623,095	544,915	87%	686,255	596,355	87%
Southern Alberta	219,930	181,367	82%	235,938	183,038	78%
Saskatchewan	169,532	165,157	97%	130,005	126,087	97%
British Columbia	74,212	50,372	68%	9,312	7,095	76%
Total	1,086,769	941,811	86%	1,061,510	912,575	86%
Value	$ 68.9 million			$ 51.0 million		

Drilling Activity

The number of gross and net exploratory and development wells drilled in 2000 and 1999 are shown below:

	Exploratory		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
2000						
Crude oil wells	**18**	**18.0**	**249**	**245.9**	**267**	**263.9**
Natural gas wells	**7**	**7.0**	**21**	**17.3**	**28**	**24.3**
Service wells	**–**	**–**	**4**	**4.0**	**4**	**4.0**
Dry and abandoned	**11**	**9.4**	**12**	**11.0**	**23**	**20.4**
Total wells	**36**	**34.4**	**286**	**278.2**	**322**	**312.6**
Success rate (%)	**69**	**73**	**96**	**96**	**93**	**93**
Average working interest (%)		**96**		**97**		**97**
1999						
Crude oil wells	12	12.0	97	89.6	109	101.6
Natural gas wells	11	10.2	17	11.2	28	21.4
Service wells	–	–	1	1.0	1	1.0
Dry and abandoned	14	13.5	11	10.4	25	23.9
Total wells	37	35.7	126	112.2	163	147.9
Success rate (%)	62	62	91	91	85	84
Average working interest (%)		96		89		91

Oil and Gas Reserves

Outtrim Szabo Associates Ltd., independent oil and gas reservoir engineers, prepared a report evaluating our crude oil and natural gas reserves as of December 31, 2000. In connection with their review, Baytex provided Outtrim with land data, well information, geological information, reservoir studies, estimates of onstream dates, contract information, current hydrocarbon product prices, operating cost data, capital budget forecasts, financial data and future operating plans. Outtrim also obtained other engineering, geological or economic data from public records, other operators and their non-confidential files.

Reserve Reconciliation

	Crude oil and NGLs (mbbls)			Natural gas (mmcf)		
	Proved	Probable	Total	Proved	Probable	Total
December 31, 1998	54,395	28,807	83,202	105,724	44,289	150,013
Discoveries and extensions	10,774	7,331	18,105	36,070	16,361	52,431
Dispositions	(421)	–	(421)	(2,449)	–	(2,449)
Revisions of prior estimates	(4,667)	917	(3,750)	(14,934)	(13,046)	(27,980)
Production	(3,661)	–	(3,661)	(20,464)	–	(20,464)
December 31, 1999	56,420	37,055	93,475	103,947	47,604	151,551
Discoveries and extensions	17,684	2,108	19,792	9,727	3,074	12,801
Acquisitions	37,700	10,905	48,605	10,767	–	10,767
Dispositions	(213)	(109)	(322)	(3,735)	(4,650)	(8,385)
Revisions of prior estimates	2,256	(1,921)	335	(1,556)	(15,826)	(17,382)
Production	(8,825)	–	(8,825)	(21,102)	–	(21,102)
December 31, 2000	**105,022**	**48,038**	**153,060**	**98,048**	**30,202**	**128,250**

Reserve Value

December 31, 2000	Reserves (before royalties)		Present worth of reserves discounted at		
	Oil & Liquids	Gas	0%	10%	15%
	(mbbls)	(mmcf)	($ thousands)		
Proved developed					
Producing	37,268	54,887	585,370	463,968	423,373
Non-producing	30,512	33,500	412,154	204,409	164,482
Proved undeveloped	37,242	9,661	400,887	235,317	190,378
Total proved	105,022	98,048	1,398,411	903,694	778,233
Probable	48,038	30,202	610,111	317,169	249,558
Total proved and probable	153,060	128,250	2,008,522	1,220,863	1,027,791

Pricing Assumptions

	WTI at Cushing, Oklahoma	Light oil at Edmonton	Heavy oil 12 API at Hardisty	Alberta spot gas price
	($US/bbl)	($Cdn/bbl)	($Cdn/bbl)	($Cdn/mcf)
2001	27.50	40.74	22.74	7.50
2002	24.36	35.97	22.97	5.60
2003	21.63	31.33	21.33	4.50
2004	21.96	31.55	22.55	4.25
2005	22.29	31.53	22.53	4.08
2006	22.62	31.52	22.52	4.08

Reserve Life Index

	Q4 – 2000 production	Total proved	Proved and probable
December 31, 2000			
Crude oil and NGLs (bbls/d)	**31,149**	**9.2**	**13.5**
Natural gas (mmcf/d)	**54.7**	**4.9**	**6.4**
Oil equivalent (boe/d)	**36,619**	**8.6**	**12.4**

Investment Efficiency

	2000	1997-2000 4 year average
Capital expenditures (thousands)	**$ 384,857**	$ 665,138
Finding and development ($/boe)		
Proved	**6.52**	6.44
Proved + 1/2 probable	**6.08**	5.56
Proved + probable	**5.64**	4.67
Cash flow netbacks ($/boe)	**14.20**	11.30
Reserve recycle ratio		
Proved	**2.2**	1.8
Proved + 1/2 probable	**2.3**	2.0
Proved + probable	**2.5**	2.4
Reserve replacement ratio		
Proved	**5.4**	3.6
Proved + 1/2 probable	**5.8**	4.3
Proved + probable	**6.2**	4.9

Net Asset Value

($ thousands)	December 31, 2000	
Reserve discount rate	10%	15%
Established (proved + 1/2 probable) reserves	1,062,279	903,012
Undeveloped land	68,872	68,872
Long-term debt and working capital	(256,257)	(256,257)
Stock option proceeds	33,407	33,407
Net asset value	908,301	749,034
Fully diluted shares	49,839	49,839
Net asset value per share	$ 18.22	$ 15.03

Marketing

Crude Oil

Strong economic growth in the US and Europe and low world oil inventories combined to keep world oil prices at a high level throughout 2000. Benchmark West Texas Intermediate (WTI) crude averaged US$30.20 per barrel in 2000, a 57 percent increase over the US$19.24 average of 1999. The strong world prices impacted the price Baytex received for its conventional oil and NGL production, resulting in the average for the year increasing 66 percent to $40.23 per barrel compared to $24.17 in 1999.

The price of heavy oil in 2000 also benefited from the high price of crude with the price Baytex received for its heavy crude increasing to an average of $26.54 per barrel in 2000 compared to $20.35 in 1999. However, this price would have been substantially higher had the differential between light sweet oil and heavy oil not widened so dramatically in the fourth quarter of 2000. This differential increase resulted from many market factors including an increasing world supply of heavier blends of crude, decreasing seasonal demand for heavy crude in the fourth quarter and the refiners' desire to move the lighter blends of crude through refineries, hence reducing demand for heavy crude. These factors resulted in the differential between WTI and the posting for a LLB barrel of heavy oil at Hardisty averaging US$13.53 in the fourth quarter compared to an average US$ 5.08 for the first nine months of 2000. This substantially impacted Baytex's heavy oil wellhead price, reducing it to $17.33 per barrel during the fourth quarter or 36 percent of the Edmonton par price compared to a ratio of 73 percent for the first nine months of 2000. We feel that the substantial increase in heavy oil differentials in the fourth quarter was an aberration that has already begun to correct itself in the first quarter of 2001 and will continue to improve as seasonal demand increases.

In the latter part of 1999, Baytex entered into several oil price hedging contracts in an effort to partially protect the Company against substantial down swings in the price of oil that the industry had seen in the previous two years. In addition, the Company inherited several contracts with the acquisition of Bellator in May 2000. The strong price of crude throughout 2000 resulted in the Company's revenue being reduced by $53.2 million as a result of these hedging contracts. For 2001, the Company has two fixed price contracts, which include the delivery of 7,200 barrels per day of oil at a fixed WTI price of C$28.81 and a swap covering 4,600 barrels of heavy crude fixing the LLB differential at US$5.40 per barrel.

Natural Gas

Canadian natural gas prices were very strong throughout 2000. With continued economic growth in North America and below normal temperatures in the fourth quarter, demand for natural gas continued to outpace supply, decreasing storage levels and increasing prices. This resulted in the average daily index price of Alberta gas at the AECO 'C' hub averaging $5.54 per mcf in 2000 compared to $2.92 in 1999.

Baytex achieved an increase of 59 percent in gas prices in 2000, averaging $4.01 per mcf versus $2.52 per mcf in 1999. The Company's natural gas market mix for 2000 was 6 percent tied to the U.S. Northeast, 9 percent tied to the U.S. Midwest, 17 percent tied to the U.S. Gulf coast and 68 percent tied to Alberta prices. Our portfolio of natural gas sales contracts for 2001 includes short term AECO indexed contracts covering 20 percent of budgeted production, fixed price contracts with a weighted average fixed price of $2.04 per mcf covering 29 percent, aggregator contracts covering 19 percent and Alberta spot sales covering 32 percent.

Our employees are the main reason behind the Company's success over the past years. We had 143 employees at year end 2000 located in our Calgary office and in our field offices in Alberta and Saskatchewan. For the year 2000, each of our employees was responsible for average production of 209 boe/d, capital expenditures of $2.7 million and cash flow of $1.1 million. Their efficiency is exceptional and their dedication is unparallel.

BE READ WITH THE AUDITED CONSOLIDATED
PEARING ELSEWHERE IN THIS ANNUAL REPORT.
TEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES.

nsideration of $204 million consisting of shares, approximately $43 million
on doubled the Company's heavy oil production capability and added
nber 31, 2000, production from the Bellator properties averaged 15,700
t over the production level at the time of acquisition.
ately $17 million, consisting of shares and the assumption of $4.6 million
approximately 220 barrels per day of heavy oil production and 4.0 million
area in Western Saskatchewan.

barrels of oil equivalent per day, from 15,641 barrels of oil equivalent per

r day for 2000, up slightly from the 1,134 barrels per day for 1999. Light
0, down 14 percent from the 2,878 barrels per day for 1999. The overall
declines and the Company's decision to allocate the majority of its 2000

Bellator and Aquilo in 2000. These acquisitions combined to contribute
00. The Bellator production was included from May 1 and the Aquilo
emaining properties increased 95 percent to 10,843 barrels per day from
opment drilling at Carruthers and Reward in Western Saskatchewan.
compared with 1999. The Bellator and Aquilo properties contributed
declines in the Company's remaining properties were also replaced by

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contracts covering 19 percent and Alberta spot sales covering 32 percent

Our efforts are evidenced by our results. Since the oil price recovery in the Spring of 1999, Baytex has experienced production growth in six consecutive quarters. In 2000 this translated into record financial results with revenues reaching $286.2 million, an increase of 138 percent over 1999, cash flow from operations reaching $155.3 million, an increase of 148 percent over 1999 and net income reaching $43.8 million, an increase of 210 percent over 1999.

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ WITH THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES APPEARING ELSEWHERE IN THIS ANNUAL REPORT. THE DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES.

Overview

In May 2000, Baytex acquired Bellator Exploration Inc. for total consideration of $204 million consisting of shares, approximately $43 million in cash and the assumption of $59 million of debt. The Bellator acquisition doubled the Company's heavy oil production capability and added significant reserves and undeveloped acreage. For the quarter ended December 31, 2000, production from the Bellator properties averaged 15,700 barrels of oil equivalent per day, which represents an increase of 57 percent over the production level at the time of acquisition.

In August 2000, Baytex acquired Aquilo Energy Inc. for approximately $17 million, consisting of shares and the assumption of $4.6 million of debt. The Aquilo acquisition added exploitation opportunities along with approximately 220 barrels per day of heavy oil production and 4.0 million cubic feet per day of natural gas production to the Company's core project area in Western Saskatchewan.

Production

Average production for 2000 increased by 91 percent to 29,882 barrels of oil equivalent per day, from 15,641 barrels of oil equivalent per day in 1999.

Light oil production from Northwest Alberta was 1,264 barrels per day for 2000, up slightly from the 1,134 barrels per day for 1999. Light oil production from West Central Alberta was 2,485 barrels per day for 2000, down 14 percent from the 2,878 barrels per day for 1999. The overall decrease in Alberta light oil production was the result of natural production declines and the Company's decision to allocate the majority of its 2000 capital spending program to heavy oil development.

Heavy oil production growth was enhanced by the acquisitions of Bellator and Aquilo in 2000. These acquisitions combined to contribute an average of 9,200 barrels per day to the Company's production in 2000. The Bellator production was included from May 1 and the Aquilo production was included from August 1. Production from the Company's remaining properties increased 95 percent to 10,843 barrels per day from 5,574 barrels per day for 1999. The increase was due to successful development drilling at Carruthers and Reward in Western Saskatchewan.

Natural gas production for 2000 remained relatively unchanged compared with 1999. The Bellator and Aquilo properties contributed 4.8 million cubic feet per day to the 2000 average. Natural production declines in the Company's remaining properties were also replaced by continuous development activities.

Production by Area

	Conventional oil and NGLs	Heavy oil	Natural gas	Barrels of oil Equivalent
	(bbls/d)	(bbls/d)	(mmcf/d)	(boe/d)
2000				
Northwest Alberta	**1,264**	**–**	**27.0**	**3,964**
West Central Alberta	**2,485**	**171**	**21.9**	**4,846**
Saskatchewan	**358**	**19,834**	**8.8**	**21,072**
Total Production	**4,107**	**20,005**	**57.7**	**29,882**
1999				
Northwest Alberta	1,134	–	28.2	3,954
West Central Alberta	2,878	–	25.2	5,398
Saskatchewan	445	5,574	2.7	6,289
Total Production	4,457	5,574	56.1	15,641

Revenue

Petroleum and natural gas sales for 2000 increased 138 percent to $286.2 million compared with $120.1 million in 1999. Benchmark West Texas Intermediate (WTI) crude oil averaged US$30.20 per barrel for 2000, representing a 57 percent increase over the US$19.24 average for 1999. Heavy oil differentials increased from 1999 with Baytex's heavy oil receiving 60 percent of the par crude price compared with 74 percent in 1999. Natural gas prices also experienced strong gains, as the Company's average gas price for 2000 was 59 percent higher than in 1999. Overall, after accounting for losses from crude oil hedging activities, Baytex averaged $26.17 per barrel of oil equivalent for 2000 production, which was 24 percent higher than the $21.04 received in 1999. Gross revenue for these periods is summarized in the following table:

Gross Revenue Analysis

	2000		1999	
	$ thousands	**$/unit**	$ thousands	$/unit
Oil (bbl)				
Conventional wellhead	**60,475**	**40.23**	39,323	24.17
Heavy wellhead	**194,328**	**26.54**	41,402	20.35
Hedging loss	**(53,177)**	**(6.03)**	(12,171)	(3.32)
Combined wellhead	**201,626**	**22.85**	68,554	18.73
Gas (mcf)				
Wellhead	**84,600**	**4.01**	51,533	2.52
Gross revenue (boe)	**286,226**	**26.17**	120,087	21.04

Royalties

Total royalties, after the Alberta Royalty Tax Credit, increased 189 percent to $50.4 million from $17.4 million in 1999. The increase was due to increased sales revenue and higher government royalty rates, which resulted from higher wellhead prices. The overall royalty rate for 2000 was 14.9 percent of sales compared with 13.2 percent for 1999. In 2000, royalties were 18.7 percent for light oil (1999 – 14.8 percent), 10.2 percent for heavy oil (1999 – 5.6 percent) and 22.9 percent for natural gas (1999 – 18.3 percent).

Operating Expenses

Operating expenses increased 109 percent to $53.8 million compared with $25.7 million for 1999. This increase was attributed to the Company's higher level of production in 2000 and the general increase in costs for oilfield services resulting from record levels of industry activity in 2000. Operating expenses for 2000 were $5.29 per barrel for light oil production, $4.91 per barrel for heavy oil production and $0.47 per thousand cubic feet for natural gas production. These levels were all higher than in 1999 when expenses were $5.02 per barrel for light oil, $4.25 per barrel for heavy oil and $0.43 per thousand cubic feet for natural gas. Overall operating expenses increased nine percent to $4.92 per barrel of oil equivalent from $4.50 per barrel of oil equivalent for 1999.

Operating Netbacks

	Conventional oil & NGLs ($/bbl)		Heavy oil ($/bbl)		Total oil & NGLs ($/bbl)		Gas ($/mcf)		BOE ($/boe)	
	2000	1999	**2000**	1999	**2000**	1999	**2000**	1999	**2000**	1999
Sales price	**40.23**	24.17	**26.54**	20.35	**28.87**	22.05	**4.01**	2.52	**31.04**	23.17
Royalties	**(7.59)**	(4.03)	**(2.71)**	(1.14)	**(3.54)**	(2.42)	**(0.92)**	(0.49)	**(4.61)**	(3.30)
ARTC	**0.08**	0.45	**–**	–	**0.01**	0.20	**0.01**	0.03	**0.04**	0.24
Operating costs	**(5.29)**	(5.02)	**(4.91)**	(4.25)	**(4.97)**	(4.59)	**(0.47)**	(0.43)	**(4.92)**	(4.50)
Net revenue	**27.43**	15.57	**18.92**	14.96	**20.37**	15.24	**2.63**	1.63	**21.55**	15.61

Note: Sales prices in this table are before hedging

General and Administrative Expenses

General and administrative expenses, after full cost accounting capitalization, increased to $4.3 million for 2000 compared with $3.2 million for 1999. On a per unit of production basis, these expenses were reduced to $0.40 per barrel of oil equivalent for 2000, down from $0.56 per barrel of oil equivalent for 1999. This increase in administrative efficiency was due to better economies of scale brought about by production growth.

General and Administrative Expenses

($ thousands)	2000	1999
Gross expense	**14,660**	9,778
Operator's recoveries	**(5,998)**	(3,332)
Subtotal	**8,662**	6,446
Capitalized expense	**(4,331)**	(3,223)
Net expense	**4,331**	3,223

Interest Expenses

Interest expense on long-term debt increased by 64 percent to $13.8 million for 2000, compared with $8.4 million for 1999. This increase is attributed to additional borrowings during 2000, primarily for completing the acquisitions of Bellator and Aquilo. Our average month-end long-term debt was $182.5 million for 2000 compared with $125 million for 1999.

Depletion, Depreciation and Amortization

Depletion, depreciation and amortization increased to $84.6 million for 2000, compared with $38.0 million for 1999. In part, this was due to a production increase of 91 percent during this period. On a per barrel of oil equivalent basis, the provision for 2000 was $7.74 compared with $6.66 for 1999. The increase was primarily due to a change in accounting policy in fiscal 2000 related to future income taxes. Under this new accounting policy, the book value of petroleum and natural gas properties, including those acquired from Bellator and Aquilo, were increased by the estimated future tax liability associated with the excess of book value over the tax value of these assets.

Site Restoration Costs

Site restoration costs for 2000 increased to $3.4 million compared with $2.1 million for 1999. This amount represents the estimated charge to income for the cost of future clean up and restoration of producing and shut-in wells and facility sites. On a per unit of production basis, this rate decreased to $0.31 per barrel of oil equivalent for 2000, compared with $0.36 per barrel of oil equivalent in 1999.

Income Taxes

Current tax expenses were $8.5 million for 2000 compared to $2.6 million for 1999. Taxes for 2000 were comprised of $7.0 million of Saskatchewan Capital Tax and $1.5 million of Large Corporation Tax, compared to $1.8 million of Saskatchewan Capital Tax and $0.8 million of Large Corporation Tax in 1999. The Saskatchewan Capital Tax is a revenue-based tax and, as such, the Company's large increase in Saskatchewan heavy oil production and revenue resulted in a large increase in this tax. The Large Corporation Tax is based on the book value of total capital employed. As a result, the 2000 exploration and development program, the acquisitions of Bellator and Aquilo, and the effect of the change in accounting policy for future income taxes, all contributed to a higher Large Corporation Tax levy.

Canadian Tax Pools

(thousands)	December 31, 2000
Cumulative Canadian Exploration Expense	$ 117,000
Cumulative Canadian Development Expense	109 000
Cumulative Canadian Oil and Gas Property Expense	43 000
Undepreciated Capital Cost	176,000
Total tax pools	$ 445,000

Future income taxes for 2000 were $23.5 million or 31 percent of income before income taxes, compared to $8.5 million or 34 percent of income before income taxes for 1999. The decrease in the effective tax rate is due to the change in accounting policy in 2000 with respect to future income taxes. Baytex implemented this new accounting recommendation retroactively without restating prior period financial statements. The application of the new liability method for income taxes resulted in an increase of $15.6 million in capital assets, a decrease of $11.1 million in retained earnings and an increase of $26.7 million in future tax liability.

Net Income

Net income for 2000 increased to $43.8 million compared with $14.1 million for 1999. This increase was due to strong production growth and the improved profitability of the Company's operations as a result of higher commodity prices. On a per unit of production basis, net income amounted to $4.00 per barrel of oil equivalent for 2000, compared with $2.48 per barrel of oil equivalent for 1999.

Cash Flow and Net Income

	2000		1999	
	$/boe	**Percent**	$/boe	Percent
Production revenue	**31.04**	**100**	23.17	100
Hedging loss	**(4.87)**	**(16)**	(2.13)	(9)
Net royalties	**(4.61)**	**(15)**	(3.06)	(13)
Operating expenses	**(4.92)**	**(16)**	(4.50)	(20)
Net production revenue	**16.64**	**53**	13.48	58
General and administrative	**(0.40)**	**(1)**	(0.56)	(2)
Net interest	**(1.26)**	**(4)**	(1.48)	(6)
Current taxes	**(0.78)**	**(2)**	(0.45)	(2)
Cash flow from operations	**14.20**	**46**	10.99	48
Depletion and depreciation	**(7.74)**	**(25)**	(6.66)	(29)
Site restoration costs	**(0.31)**	**(1)**	(0.36)	(2)
Future income taxes	**(2.15)**	**(7)**	(1.49)	(6)
Net income	**4.00**	**13**	2.48	11

Capital Expenditures

Exploration and development expenditures increased to $170.8 million for 2000, compared with $81.7 million for 1999. The higher expenditures were due to increased activities in 2000, which included the drilling of 312.6 net wells compared with 147.9 net wells during 1999. In addition, the acquisition of Bellator and Aquilo accounted for the increase in acquisition expenditures in 2000. Capital expenditures for these periods are summarized as follows:

Capital Expenditures

($ thousands)	2000	1999
Land	**18,481**	13,086
Seismic	**9,186**	3,560
Drilling and completions	**94,069**	40,823
Equipment	**42,999**	19,289
Other	**6,052**	4,897
Total exploration and development	**170,787**	81,655
Acquisitions	**223,623**	978
Dispositions	**(9,553)**	(8,320)
Total capital expenditures	**384,857**	74,313

Liquidity and Capital Resources

At December 31, 2000, Baytex's long-term debt consisted of two major components. The first component is US$57 million of senior secured notes bearing interest at 7.23 percent, with the principal due on November 13, 2004. These senior secured notes are governed by financial and other corporate covenants and are secured by a charge over all of the Company's assets. The security is shared equally with the senior credit facilities. Baytex has not fixed the US dollar exchange rate on the principal amount owing, or the quarterly interest payments on these senior secured notes.

The second component is our senior credit facilities, which at December 31, 2000 included a $150 million revolving credit facility, a $25 million letter of credit facility and a $20 million operating credit facility. These senior credit facilities bear interest at the lenders' prime rate, or at the bankers' acceptance rate or LIBOR, plus a margin based on the Company's ratio of total funded debt to cash flow, which ranges from one to two percent. These facilities are secured by a charge over all of the Company's assets. The security is shared equally with the senior secured notes.

Borrowings under the senior credit facilities are limited by a borrowing base amount which is established periodically by the lenders. As of December 31, 2000, the borrowing base amount was $255 million. This amount is the lenders' estimate of the present value of the future net cash flow from the Company's oil and natural gas properties on a consolidated basis. The permitted borrowings under the senior credit facilities are the amount of the borrowing base less the senior secured notes.

On February 12, 2001, the Company completed an offering of US$150 million of 10.5 percent senior subordinated notes due on February 15, 2011. On receipt of the net proceeds, Baytex used a portion of the funds to repay all borrowings under its senior credit facilities. The Company currently has undrawn senior credit facilities totaling $110 million and an adjusted borrowing base of $195 million.

In the past, Baytex has grown through both exploration and development activities as well as acquisitions, and the Company regularly evaluates opportunities to acquire properties or companies. If it undertakes a future significant acquisition for cash, the Company may be required to raise debt and/or conduct an equity financing in order to complete the acquisition. In addition, it is likely that the Company will be required to raise additional debt and/or equity financing to fully realize its strategic goals and business plans. The Company's ability to raise additional capital will depend upon a number of factors beyond its control, such as general economic and market conditions. If Baytex is unable to obtain additional financing or to obtain it on favorable terms, it might be required to forego attractive business opportunities.

Baytex believes that funds generated from its operations, together with existing cash and capacity under the senior credit facilities, will be sufficient to finance current operations and planned capital expenditures for the next two years. The timing of most of the Company's capital expenditures is discretionary, and there are no material long-term capital expenditures commitments.

Market Risk

Baytex is exposed to a variety of market risks including changes in commodity prices, foreign currency exchange rates and interest rates. The Company uses various risk management activities to mitigate the effects of these market risks. Derivative instruments are not used for speculative or trading purposes.

The Company's financial results can be significantly affected by the prices received for oil and natural gas production as commodity prices fluctuate in response to changing market forces. This pricing volatility is expected to continue.

Baytex seeks to reduce its exposure to commodity price risk by entering into long-term marketing contracts and commodity hedging contracts. These may include futures contracts, collars, swaps and options, in addition to fixed-price physical delivery contracts. The Company recognizes realized gains or losses from hedging activities as oil and natural gas production revenue when the associated production occurs.

As of December 31, 2000, Baytex had a fixed oil price contract for 7,200 barrels per day for calendar 2001 at a price of C$28.81 WTI per barrel. The Company also has a differential swap contract for 4,600 barrels per day for calendar 2001, which fixes the LLB differential at US$5.40 per barrel.

The Company's financial results are exposed to fluctuations in the exchange rate between the Canadian dollar and the US dollar. Crude oil and, to a large extent, natural gas prices are based on reference prices denominated in US dollars, while the majority of expenses are denominated in Canadian dollars. Baytex manages its exposure to this market risk by balancing US dollar denominated revenue with US dollar denominated borrowings.

Baytex may be exposed to changes in interest rates as the Company's senior credit facilities are based on our lenders' prime lending rate. With the completion of its recent financing in February 2001, the Company's long-term debt is comprised entirely of U.S. dollar fixed rate term debt, thereby providing the Company with long-term stability in its capital structure, as well as reduced liquidity risk.

Quarterly Information

	2000				1999			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
FINANCIAL (unaudited) ($ thousands except per share amounts)								
Petroleum and natural gas sales	74,909	93,051	67,810	50,456	39,432	32,565	24,862	23,228
Cash flow from operations	34,501	52,006	38,761	30,058	20,413	17,684	13,189	11,417
Per share – basic	0.73	1.17	0.94	0.84	0.57	0.50	0.38	0.32
Net income	4,309	17,258	12,129	10,092	4,904	4,979	2,677	1,568
Per share – basic	0.08	0.39	0.29	0.28	0.14	0.14	0.08	0.04
Capital expenditures, net	43,339	58,761	250,069	32,691	24,936	26,364	12,187	10,823
OPERATIONS								
Production								
Conventional oil and NGLs (bbls/d)	4,245	3,970	4,087	4,125	4,166	4,148	4,402	5,125
Heavy oil (bbls/d)	26,904	25,260	17,396	10,326	7,610	5,877	4,494	4,275
Total oil and NGLs (bbls/d)	31,149	29,230	21,483	14,451	11,776	10,025	8,896	9,400
Natural gas (mmcf/d)	54.7	58.4	59.2	58.4	59.4	56.1	55.8	53.3
Barrels of oil equivalent (boe/d)	36,619	35,070	27,393	20,291	17,716	15,635	14,476	14,730
Average prices								
WTI oil (US$/bbl)	31.86	31.58	28.63	28.73	24.51	21.72	17.66	13.06
Edmonton par oil ($/bbl)	48.34	46.36	41.45	41.34	35.50	30.92	24.59	18.44
BTE – Light oil ($/bbl)	43.07	42.35	37.92	37.50	32.48	28.57	21.66	15.81
Heavy oil ($/bbl)	17.33	32.60	30.36	29.40	24.18	23.87	15.95	13.11
Total oil ($/bbl)	20.83	33.93	31.79	31.71	27.12	25.81	18.78	14.47
BTE natural gas ($/mcf)	5.82	3.96	3.57	2.85	2.90	2.55	2.30	2.29
BTE oil equivalent ($/boe)	26.42	34.87	32.64	30.79	27.68	25.69	20.41	17.53

Share Trading Information

	2000 Q4	2000 Q3	2000 Q2	2000 Q1	1999 Q4	1999 Q3	1999 Q2	1999 Q1
BTE – Toronto Stock Exchange								
High ($)	15.80	16.70	15.50	12.55	9.75	11.30	8.45	4.90
Low ($)	9.00	11.75	11.55	8.25	8.10	8.30	4.00	2.90
Close ($)	10.00	14.55	14.00	11.70	8.80	9.80	8.30	4.70
Average daily volume	88,880	107,272	110,989	82,783	79,854	110,990	125,866	83,823

Management, in accordance with Canadian generally accepted accounting principles, prepared the accompanying consolidated financial statements of Baytex Energy Ltd. Financial and operating information presented throughout this Annual Report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial information. Systems of internal control are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes. Timely disclosure requires the use of estimates when transactions affecting the current accounting period cannot be finalized or known for certain until future periods. Such estimates are based on judgments made by management using relevant information known at the time.

Independent auditors are appointed by the Corporation's shareholders to perform an examination of the corporate and accounting records so as to express an opinion on the financial statements. Their examination included a review and evaluation of Baytex's system of internal controls and included such tests and procedures, as they considered necessary, to provide a reasonable assurance that the consolidated financial statements are presented fairly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee. The Committee meets with management and the independent auditors to satisfy it that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board of Directors for approval.

Raymond T. Chan, CA
Senior Vice President and
Chief Financial Officer

John G. Leach, CA
Vice President, Finance
and Administration

March 2, 2001

To the Shareholders of Baytex Energy Ltd.

We have audited the consolidated balance sheets of Baytex Energy Ltd. as at December 31, 2000 and 1999 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years ended in accordance with Canadian generally accepted accounting principles.

On March 2, 2001, we reported separately to the board of directors and shareholders of Baytex Energy Ltd. on the consolidated financial statements for the same period, prepared in accordance with Canadian generally accepted accounting principles but which included Note 13, United States Accounting Principles and Reporting.

Deloitte & Touche LLP

Chartered Accountants

Calgary, Alberta
March 2, 2001

Years Ended December 31, 2000 and 1999 (thousands, except per share data)	2000	1999
Cash provided by (used in):		
Operating activities		
Net income	$ 43,788	$ 14,128
Items not affecting cash:		
Depletion, depreciation and amortization	84,602	38,004
Site restoration costs	3,430	2,063
Future income taxes	23,506	8,508
Cash flow from operations	155,326	62,703
Change in non-cash working capital (note 8)	512	5,102
	155,838	67,805
Financing activities		
Increase (decrease) in long-term debt	43,825	(35,799)
Issue of common shares (net of issue expenses)	3,383	644
	47,208	(35,155)
Investing activities		
Corporate acquisitions (note 2)	(221,754)	–
Items not affecting cash		
Shares issued on acquisition	112,958	–
Assumption of long-term debt	50,433	–
Assumption of working capital deficiency	13,604	–
	(44,759)	–
Petroleum and natural gas property expenditures	(172,656)	(82,633)
Disposal of petroleum and natural gas properties	9,553	8,320
Repurchase of leased assets	–	(11,797)
Change in materials and supplies	(3,195)	1,070
Change in non-cash working capital (note 8)	8,011	52,390
	(203,046)	(32,650)
Change in cash during the year	–	–
Cash, beginning of year	–	–
Cash, end of year	$ –	$ –
Cash flow from operations per common share		
Basic	$ 3.68	$ 1.77
Fully diluted	$ 3.50	$ 1.67

Years Ended December 31, 2000 and 1999

1. Significant Accounting Policies

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles within the framework of the accounting policies summarized below:

Consolidation

The financial statements include the accounts of the Company and its wholly-owned subsidiaries from the respective dates of acquisition of the subsidiary companies.

Petroleum and natural gas operations

The Company follows the full cost method of accounting whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized in one Canadian cost centre and charged against income, as set out below. Such costs include land acquisition, drilling, geological and geophysical, production facilities and overhead expenses related to exploration and development activities. These costs are depleted and depreciated on a unit of production method using estimated gross proved petroleum and natural gas reserves as determined by independent engineers. For purposes of this calculation, petroleum and natural gas reserves are converted to a common unit of measurement on the basis of their relative energy content where six thousand cubic feet of gas equates to one barrel of oil. Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or impairment occurs.

Gains or losses on sales of properties are recognized only when crediting the proceeds to costs would result in a change of 20 percent or more in the depletion rate.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test"). Under this test, an estimate is made of the ultimate recoverable amount from future net revenues using proved reserves and year end prices, plus the net costs of major development projects and unproved properties, less future removal and site restoration costs, overhead, financing costs and income taxes. If the net carrying costs exceed the ultimate recoverable amount, additional depletion and depreciation is provided.

Provision for future site restoration costs

Estimates are made of the future site restoration costs relating to the Company's petroleum and natural gas properties at the end of their economic life, based on year end values, in accordance with current legislative requirements and industry practice. Annual charges are provided for on a unit of production method. Actual expenditures incurred are applied against the provision for future site restoration costs.

Joint interests

A portion of the Company's exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Foreign currency translation

Foreign currency denominated monetary items are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Unrealized gains or losses on long-term debt are deferred and amortized over the remaining term of the debt instrument.

Revenue and expenses are translated at the monthly average rate of exchange. Translation gains and losses are included in net income.

Financing costs

Financing costs related to the issuance of the senior secured term notes are deferred and amortized over the term of the notes.

Hedging transactions

The Company periodically utilizes certain financial instruments to hedge exposures related to commodity prices and foreign exchange fluctuations on a portion of its crude oil and natural gas production. Gains and losses realized on these transactions are reported as adjustments to revenue when related production is sold.

Income taxes

Effective January 1, 2000, the Company adopted the Canadian Institute of Chartered Accountants' accounting recommendations with respect to income taxes. The new recommendations were applied retroactively without restatement of prior year financial statements. The Company now follows the liability method of accounting for income taxes.

Flow-through shares

The Company has financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditure are renounced to the subscribers. Accordingly, the carrying value of the expenditures incurred and the shares issued are recorded net of tax benefits renounced to the subscribers. As described above, the Company has adopted a new method of accounting for income taxes. As a result of this new method, the Company now records the gross carrying value of the expenditures and records a future tax liability for the tax benefits renounced to subscribers.

Stock options and stock appreciation rights

The Company has a stock option plan. No compensation expense is recognized for this plan when stock options are issued. The consideration paid on the exercise of stock options is credited to share capital.

The Company has a stock appreciation rights plan. Benefits under this plan are charged to net income.

2. Business Combinations

(a) Effective May 1, 2000, the Company acquired all of the issued and outstanding shares of Bellator Exploration Inc. ("Bellator"), a public company involved in the exploration, development and production of oil and natural gas in Western Canada. The acquisition has been accounted for by the purchase method of accounting as follows:

		(thousands)
Consideration		
Cash	$	39 933
Transaction costs		3,386
		43,319
Issue of 8,785,287 common shares		101,734
	$	145,053
Net Assets Acquired		
Petroleum and natural gas properties	$	281 586
Future income taxes		(76,627)
Future site restoration costs		(494)
		204,465
Working capital deficiency		(13,339)
Long-term debt		(46,073)
	$	145,053

(b) Effective August 1, 2000, the Company acquired all of the issued and outstanding shares of Aquilo Energy Inc. ("Aquilo"), a private company involved in the exploration, development and production of oil and natural gas in Western Canada. The acquisition has been accounted for by the purchase method of accounting as follows:

		(thousands)
Consideration		
Transaction costs	$	1,440
Issue of 956,013 common shares		11,224
	$	12,664
Net Assets Acquired		
Petroleum and natural gas properties	$	20,682
Future income taxes		(3,310)
Future site restoration costs		(83)
		17,289
Working capital deficiency		(265)
Long-term debt		(4,360)
	$	12,664

3. Petroleum and Natural Gas Properties

As at December 31 (thousands)	2000	1999
Petroleum and natural gas properties	$ 1,242,093	$ 738,230
Accumulated depletion and depreciation	(458,391)	(347,681)
Materials and supplies	7,312	4,117
	$ 791,014	$ 394,666

During 2000, $4,331,000 (1999 – $3,223,000) of general and administrative expenses relating to exploration and development activities were capitalized. In calculating the depletion provision for 2000, $73,283,000 (1999 – $52,776,000) of costs relating to undeveloped properties and materials and supplies of $7,312,000 (1999- $4,117,000) were excluded from costs subject to depletion.

4. Long-Term Debt

As at December 31 (thousands)	2000	1999
Senior secured term notes (US $57,000,000)	$ 85,511	$ 82,268
Bank loan	125,671	34,114
Other long term debt	2,701	–
	$ 213,883	$ 116,382

Senior secured term notes

On November 13, 1998, the Company issued US $57,000,000 of senior secured term notes, bearing interest at 7.23 percent payable quarterly with principal repayable on November 13, 2004. These notes are governed by financial and other corporate covenants and are secured by a charge over all of the Company's assets, which security is shared pari passu with the banking facilities.

Bank loan

The bank loan consists of an operating loan and a revolving loan, which are provided by a syndicate of chartered banks. The bank facilities can be drawn in either Canadian or U.S. funds and bear interest at the agent bank's prime lending rate, bankers' acceptance rates plus applicable margins or U.S. LIBOR rates plus applicable margins. The facilities are subject to annual review and are secured by a charge over all of the Company's assets. The security is shared pari passu with the senior secured term notes. At December 31, 2000, the facilities are limited to total borrowing under the facilities of $170,000,000 and a $255,000,000 borrowing base of total funded debt, which is defined to include the senior secured term notes.

Other long-term debt

Other long-term debt includes a $2,000,000 debenture term loan provided to a subsidiary of the Company. The loan bears interest at a Canadian chartered bank's prime lending rate plus 2.5 percent per annum with a minimum rate of 10 percent per annum. The note is repayable on March 12, 2002 and is secured by a demand debenture over certain petroleum and natural gas assets of the Company.

5. Deferred Credits

Deferred credits are related to the senior secured term notes and consist of:

As at December 31 (thousands)	2000	1999
Unrealized foreign exchange gain	$ 1,655	$ 5,484
Deferred financing charges	(583)	(737)
	$ 1,072	$ 4,747

6. Share Capital

(a) Authorized

The Company has an unlimited number of common shares in its authorized capital.

(b) Issued

	2000		1999	
(thousands)	# Shares	Amount	# Shares	Amount
Balance, beginning of year	35,469	$ 210,426	35,332	$ 209,782
Stock options exercised (note 6(c))	465	1,842	137	629
Shares issued for corporate acquisitions (note 2)	9,741	112,958	–	–
Flow-through shares issued (note 6(d))	122	1,604	–	–
Share issue costs, net of future tax	–	(63)	–	15
Balance, end of year	45,797	$ 326,767	35,469	$ 210,426

(c) Stock options and stock appreciation rights

The Company grants stock options to its employees and directors at the market price of the common shares at the time of the grant. The options generally vest over three years and have a term of four years for the purpose of exercise. At December 31, 2000, 2,918,102 common shares of the Company are reserved under the stock option plan for issuance. Of the 4,042,026 options outstanding as of December 31, 2000, 1,250,500 remain subject to shareholder ratification of an increase in the size of the Company's stock option plan.

(thousands)	Number	Price Range	Weighted Average Exercise Price
Outstanding December 31, 1998	3,030	$ 2.15 to $ 18.75	$ 8.78
Granted	1,863	$ 3.30 to $ 10.20	$ 4.45
Exercised	(137)	$ 2.15 to $ 7.67	$ 4.63
Cancelled	(1,610)	$ 2.46 to $ 17.15	$ 8.12
Outstanding December 31, 1999	3,146	$ 2.15 to $ 18.75	$ 6.73
Granted	2,273	$ 8.40 to $ 15.50	$ 10.98
Exercised	(465)	$ 2.15 to $ 8.10	$ 3.95
Cancelled	(912)	$ 3.80 to $ 18.75	$ 11.92
Outstanding December 31, 2000	**4,042**	**$ 3.30 to $ 15.50**	**$ 8.26**

The following table summarizes information about the stock options outstanding at December 31, 2000:

	Number outstanding at December 31, 2000	Weighted Average Remaining Term	Weighted Average Exercise Price	Number Exercisable at December 31, 2000	Weighted Average Exercise Price
	(thousands)	(years)		(thousands)	
$ 3.30 to $ 5.00	1300	2.0	$ 3.91	293	$ 4.13
$ 5.01 to $ 7.50	206	1.5	$ 5.52	132	$ 5.42
$ 7.51 to $ 11.25	1,949	3.5	$ 10.01	108	$ 8.38
$ 11.26 to $ 15.50	587	3.5	$ 13.07	3	$ 14.48
Total	4,042	2.93	$ 8.26	536	$ 5.36

The Company has granted stock appreciation rights ("Rights") to certain employees. Holders of the Rights are entitled to receive incentive payments based on the difference between market price of the Company's common shares and exercise price of the Rights. The exercise price of the Rights are determined based on the market price of the Company's common shares at the time the Rights were granted. The Rights have the same term and vesting period as those under the Company's stock option plan.

A total of 209,000 Rights are outstanding at December 31, 2000, with exercise prices ranging from $4.50 to $7.67 and a weighted average exercise price of $7.06. During 2000, 191,000 (1999 – Nil) Rights were exercised at a weighted average price of $6.67. At December 31, 2000, 75,332 Rights were vested and unexercised with a weighted average exercise price of $7.39.

(d) Flow-through shares

In accordance with the terms of a subsidiary of the Company's flow-through share offering, and pursuant to certain provisions of the Income Tax Act (Canada), the Company's subsidiary committed to renounce, for income tax purposes, exploration expenditures of $4,000,000 in 1999 to the subscribers of its flow-through shares. In 2000, the Company committed to renounce, for income tax purposes, exploration expenditures of $1,604,000 to the subscribers of its flow-through shares.

7. Income Taxes

The Company has adopted the liability method of accounting for income taxes. The application of the liability method for income taxes resulted in an increase of $15.6 million in capital assets, a decrease of $11.1 million in retained earnings and an increase of $26.7 million in future tax liability as of January 1, 2000.

The provision for income taxes has been computed as follows:

(thousands)	2000	1999
Income before income taxes	$ 75,797	$ 25,231
Expected income taxes at the statutory rate of 45.0% (1999 – 45.1%)	$ 34,109	$ 11,379
Increase (decrease) in taxes resulting from:		
Crown royalties	17,034	6,152
Resource allowance	(25,148)	(9,571)
Alberta Royalty Tax Credit	(192)	(642)
Non-tax base depletion	–	1,139
Rate change	(400)	
Unrecorded assets	(927)	
Other	(970)	51
Large Corporation Tax and provincial capital tax	8,503	2,595
Provision for income taxes	$ 32,009	$ 11,103

The components of future tax are as follows:

As at December 31 (thousands)	2000
Future income tax liabilities:	
Capital assets	$ 172,579
Future income tax assets:	
Abandonment costs	(7,099)
Loss carry-forward	(21,170)
Other	(5,865)
Future income taxes	$ 138,445

Had the Company continued to use the deferred income tax method, net income for 2000 would have been reduced by $3.2 million.

8. Cash Flow Information

Decrease in Non-Cash Working Capital Items

(thousands)	2000	1999
Accounts receivable	$ 1,810	$ 39,952
Accounts payable and accrued liabilities	6,713	17,540
	$ 8,523	$ 57,492
Changes in non cash working capital related to:		
Operating activities	$ 512	$ 5,102
Investing activities	8,011	52,390
	$ 8,523	$ 57,492

During the year the Company made the following cash outlays in respect of interest expense and current income taxes.

(thousands)	2000	1999
Interest on long-term debt	$ 14,083	$ 8,603
Current income taxes	$ 6,214	$ 1,265

9. Financial Instruments

The Company's financial instruments recognized in the balance sheet consist of accounts receivable, current liabilities and long-term borrowings. The estimated fair values of financial instruments have been determined based on the Company's assessment of available market information and appropriate valuation methodologies; however, these estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction.

The fair values of financial instruments other than long-term borrowings approximate their carrying amounts due to the short-term maturity of these instruments. At December 31, 2000 the Company had $127.7 million (December 31, 1999 – $34.1 million) of variable rate loans. There were no instruments in place at December 31, 2000 to fix the interest rate on this variable rate debt. At December 31, 2000 and 1999 the reported values of the Company's senior secured term notes, bank loan and other long-term debt approximate their fair values.

10. Hedging Contracts

The nature of the Company's operations results in exposure to fluctuations in commodity prices, exchange rates and interest rates. The Company monitors and, when appropriate, utilizes derivative financial instruments to hedge its exposure to these risks. The Company is exposed to credit-related losses in the event of non-performance by counter-parties to the financial instruments. The Company only deals with major financial institutions and does not anticipate non-performance by the counter-parties. In 2000, petroleum and natural gas sales were reduced by $53,177,000 (1999 – $12,171,000) due to crude oil hedging activities.

At December 31, 2000, the Company had contracts for the following:

	Period	Volume		Price	Index
Fixed price oil	Calendar 2001	7,200 bbl/d	CAN	$ 28.81	WTI
Differential swap	Calendar 2001	4,600 bbl/d	US	$ 5.40	LLB

11. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

12. Subsequent Events

On February 12, 2001, the Company completed an offering of US $150.0 million of 10.5 percent senior subordinated notes due on February 15, 2011. On receipt of the proceeds, the Company used a portion of the funds to repay all borrowings under its existing bank facilities resulting in the Company having undrawn bank facilities with a syndicate of chartered banks totaling $110.0 million.

	2000	1999	1998	1997	1996
FINANCIAL ($ thousands except per share amounts)					
Petroleum and natural gas sales	**286,226**	120,087	102,337	123,839	80,964
Cash flow from operations	**155,326**	62,703	43,920	63,879	50,924
Per share – basic*	**3.68**	1.77	1.29	2.10	2.19
Net income (loss)	**43,788**	14,128	(38,382)	10,989	10,500
Per share – basic*	**1.04**	0.40	(1.12)	0.36	0.45
Capital expenditures, net	**384,857**	74,313	39,314	166,654	109,062
Working capital (deficiency)	**(42,374)**	(16,130)	42,432	(32,342)	(2,093)
Long-term debt	**213,883**	116,382	157,093	98,555	73,000
Total assets	**829,414**	418,426	413,000	443,831	339,256
OPERATIONS					
Production					
Conventional oil and NGLs (bbls/d)	**4,107**	4,457	5,475	6,053	4,621
Heavy oil (bbls/d)	**20,005**	5,574	3,517	2,842	2,833
Total oil and NGLs (bbls/d)	**24,112**	10,031	8,992	8,895	7,454
Natural gas (mmcf/d)	**57.7**	56.1	75.9	78.7	52.8
Barrels of oil equivalent (boe/d)	**29,882**	15,641	16,582	16,765	12,736
Reserves					
Crude oil and NGLs (mbbls)					
Proved	**105,022**	56,420	54,395	55,765	21,963
Probable	**48,038**	37,055	28,807	28,374	6,224
Total	**153,060**	93,475	83,202	84,139	28,187
Natural gas (mmcf)					
Proved	**98,048**	103,947	105,724	201,630	184,431
Probable	**30,202**	47,604	44,289	71,337	56,983
Total	**128,250**	151,551	150,013	272,967	241,414
Wells drilled (gross)					
Oil	**267**	109	91	79	77
Gas	**28**	28	47	49	53
Other	**4**	1	–	–	1
Dry	**23**	25	33	58	56
Total	**322**	163	171	186	187
Undeveloped land holdings (thousands of net acres)	**942**	913	934	1,094	1,182

*1996 amounts are shown pooling Baytex's results with Dorset Exploration Ltd. Per share numbers reflect each Dorset share exchanged for 0.48 Baytex share.

	6:1 Conversion Before Royalties		6:1 Conversion After Royalties	
	2000	1999	**2000**	1999
PRODUCTION				
Conventional oil & NGLs (bbls/d)	**4,107**	4,457	**3,332**	3,666
Heavy oil (bbls/d)	**20,005**	5,574	**17,961**	5,263
Total oil & NGLs (bbls/d)	**24,112**	10,031	**21,293**	8,929
Natural gas (mmcf/d)	**57.7**	56.1	**44.3**	45.2
Barrels of oil equivalent (boe/d)	**33,729**	19,681	**28,678**	16,461
NET BACKS				
Net revenue	**$ 19.11**	$ 14.51	**$ 22.47**	$ 17.11
Operating costs	**(4.36)**	(3.63)	**(5.13)**	(4.28)
Production netback	**14.75**	10.88	**17.34**	12.83
G&A expense	**(0.35)**	(0.46)	**(0.41)**	(0.54)
Interest expense	**(1.12)**	(1.19)	**(1.32)**	(1.43)
Current taxes	**(0.69)**	(0.37)	**(0.81)**	(0.43)
Operating cash flow	**$ 12.59**	$ 8.86	**$ 14.80**	$ 10.43
RESERVES (Constant Dollar)				
Crude oil & NGLs (mbbls)				
Proved producing	**37,315**	20,121	**32,129**	17,746
Proved non-producing	**30,618**	6,818	**26,428**	6,113
Proved undeveloped	**37,604**	29,482	**33,615**	27,232
Total proved	**105,537**	56,421	**92,172**	51,091
Natural gas (mmcf)				
Proved producing	**54,912**	56,780	**42,635**	44,399
Proved non-producing	**33,351**	36,317	**27,009**	28,355
Proved undeveloped	**9,660**	10,850	**8,060**	8,576
Total proved	**97,923**	103,947	**77,704**	81,330
PV10 ($000s)				
Proved producing	**367,259**	269,091	**367,259**	269,091
Proved non-producing	**178,404**	86,254	**178,404**	86,254
Proved undeveloped	**73,344**	172,249	**73,344**	172,249
Total proved	**619,007**	527,594	**619,007**	527,594

Board of Directors

John A. Brussa
Partner
Burnet, Duckworth & Palmer LLP

W.A. Blake Cassidy
Retired Banker

Raymond T. Chan
Senior Vice-President
Baytex Energy Ltd.

Fred C. Coles
Executive Chairman
Applied Terravision Systems Ltd.

Dennis L. Nerland
Partner
Shea Nerland Calnan

Dale O. Shwed
President
Baytex Energy Ltd.

Officers

Dale O. Shwed
President and Chief Executive Officer

Raymond T. Chan, CA
Senior Vice-President and
Chief Financial Officer

Daniel B. Horner, LLB
Vice-President, Land

John G. Leach, CA
Vice-President, Finance
and Administration

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Vice-President, Exploration

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Bankers

Royal Bank of Canada
Bank of Montreal
BNP Paribas (Canada)

Legal Counsels

Gowling Lafleur Henderson LLP
Burnet, Duckworth & Palmer LLP

Reserves Engineers

Outtrim Szabo Associates Ltd.

Transfer Agent

Valiant Corporate Trust Company

Exchange Listing

Toronto Stock Exchange
Stock Symbol BTE

Abbreviations

bbls	barrels
bbls/d	barrels per day
bcf	billion cubic feet
boe	barrels of oil equivalent (10 mcf: 1 bbl)
mbbls	thousand barrels
mmbbls	million barrels
mboe	thousand barrels of oil equivalent (10 mcf: 1 bbl)
mmboe	million barrels of oil equivalent (10 mcf: 1 bbl)
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
mmcf/d	million cubic feet per day

Caution to reader
Corporate information provided herein contains forward looking (forecast) information. Readers are cautioned that assumptions used in the preparation of such information, although considered reasonable by Baytex at the time of preparation, may be proved to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein and the variations may be material. There is no representation by Baytex that actual results achieved during the forecast period will be the same in whole or in part as those forecast.

Designed and produced by Result Associates Inc.
Printed in Canada

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